

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2006 through the Fourth Quarter of 2009

Idaho's recent robust economic performance has raised expectations for its future. Idaho nonfarm employment accelerated in the second half of 2005, growing by a 4.6% annual rate in the third quarter followed by a 5.8% rate in the fourth quarter. Thanks to this late-year growth spurt, employment turned in its strongest showing of the decade. Last year's 4.2% actual employment growth was even higher than our 3.7% growth prediction that was made just a few months ago. What was the difference? Both the current and the previous forecast included a second-half rally. However, the previous forecast underestimated the strength of the economy's second wind. In January 2006 it was anticipated Idaho nonfarm employment would advance just over 2% in each quarter. Estimates released since January 2006 show employment grew at more than twice that rate. As a result of the faster growth, total nonfarm employment ended the year with 623,400 jobs, which were 8,200 more jobs than had been previously forecasted. One of last year's strongest performing sectors was construction employment. It posted double-digit employment growth in each of the last two quarters of 2005, bringing its year-end employment to 46,900—about 2,100 more jobs than had been previously forecasted.

Other measures also attest to the local economy's strength in 2005. For example, the U.S. Census Bureau estimates Idaho's population grew 2.4% last year, which was significantly stronger than the 1.7% predicted growth. The robust population growth propelled the state's housing industry to a new record in 2005. There were nearly 23,200 housing starts in the Gem State. Interestingly, this is just about 100 more than had been projected in January 2006. The current Idaho wage and salary payments estimate for 2005 is lower than in the previous forecast, however. This is inconsistent with the strong employment data and individual income tax withholding collections. Given these two measures are more timely than the personal income estimates, we expect the wage and salary payments estimate for 2005 will be revised upwards at a later date.

Last year's employment strength has raised expectations in two ways. First, it has raised the starting point of the current employment forecast relative to the previous one. As was pointed out above, there were about 8,000 more jobs at the end of last year than had been previously forecasted. Second, the strong employment surge at the end of last year and robust employment so far this year has convinced us the economy is running on stronger legs than we had previously believed. This being the case, Idaho nonfarm employment is predicted to increase 4.0% this year, 2.9% next year, 2.0% in 2008, and 2.1% in 2009. In the previous forecast, Idaho nonfarm employment was expected to increase about 2% in each year. As a result of the higher starting point and stronger growth, Idaho nonfarm employment should reach 682,500 jobs by 2009, which is 20,800 more jobs than in the January 2006 forecast.

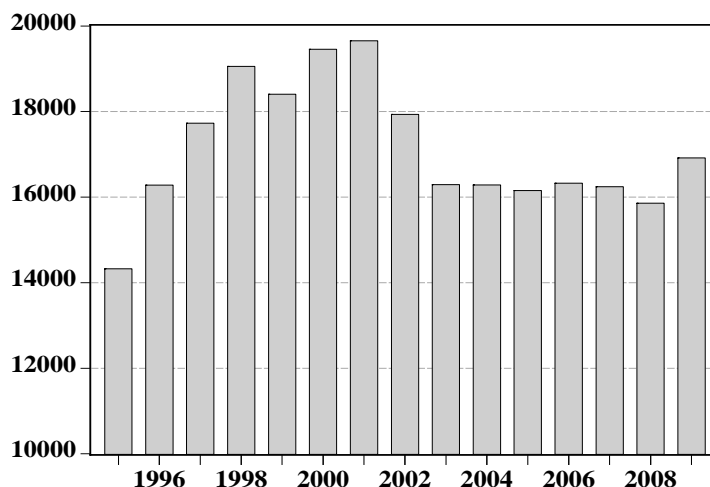
The outlooks for several other economic measures have also improved. Idaho's population is predicted to grow by just over 2% in each year, which is well above the 1.5% average rate projected in the previous forecast. Idaho housing starts decline more gradually in the current forecast compared to the previous one, so that there are about 20,200 housing starts in 2009 versus 18,500. Idaho nominal personal income also grows faster over the forecast period, hitting \$52.0 billion in 2009 compared to \$51.3 billion in the previous forecast.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Idaho's computer and electronics manufacturing employment forecast for this year and next remains similar to the one presented in January 2006. However, this industry's employment prospects after 2007 have been reduced. At the beginning of this year it was predicted employment would be flat at around 16,200 jobs in 2006 and 2007, then accelerate noticeably in 2008 and 2009. In the current forecast, Idaho computer and electronics manufacturing employment expands slightly this year but declines in 2007. The net impact is by 2007 there is little difference between the two forecasts. This changes after 2007.

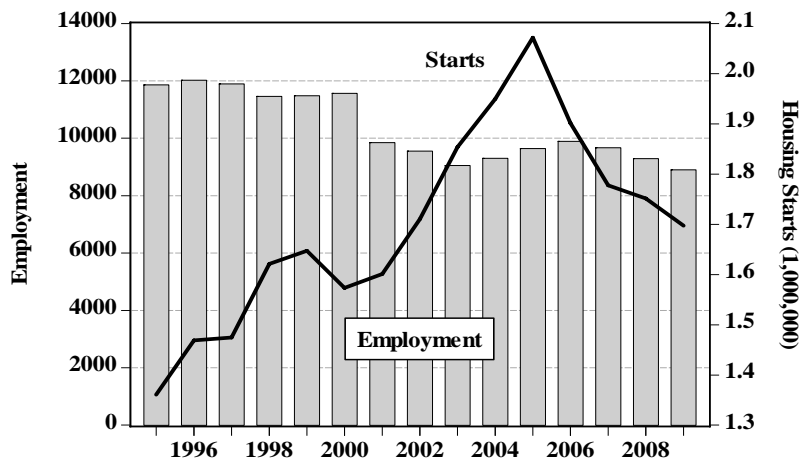
As was mentioned above, the previous forecast called for this sector's employment to expand in 2008 and 2009 after spending the previous couple of years in the doldrums. In the current forecast Idaho computer and electronics employment is projected to shrink 2.4% in 2008 then rise by nearly 7% in 2009. Despite the healthy gain in 2009, employment is down by nearly 600 jobs in the current forecast compared to the previous forecast, 16,915 versus 17,494. Much of the differences between the two forecasts can be traced to the projected national output for computers and electronic products. Specifically, in the current forecast output is expected to expand faster than in the previous forecast in 2006. Output expands at virtually the same rate in 2007. The largest differences between the two forecasts occur in 2008 and 2009. In the current forecast, output advances 10.1% in 2008 and 11.2% in 2009 compared to 11.7% and 12.8%, respectively, in the previous forecast. Although Idaho's computer and electronic manufacturing employment fails to match the previous forecast, it is still believed this industry has turned the corner on one of its most protracted slowdowns. After experiencing non-stop growth during the 1990s that made this sector the state's largest manufacturing employer, the computer and electronics sector shed 3,500 jobs from 2002 to 2005. About 750 of these jobs will be recovered over the forecast period. Micron Technology is diversifying its product line in order to insulate itself from downturns in the DRAM market. To this end, the company announced it is investing in a new joint venture with Intel to produce NAND flash memory. This type of memory is used in digital cameras, cell phones, and MP3 players. In addition, Micron this winter announced it plans to acquire Lexar Media, Inc. Lexar is a leading marketer and manufacturer of NAND flash memory products including memory cards, USB flash drives, card readers, and ATA controller technology for the digital photography, consumer electronics, industrial, and communications markets. The move will create synergy that will strengthen Micron's presence in the fast growing NAND memory market. There are some downside risks to the current forecast. Hewlett-Packard recently announced it plans to reduce its company workforce by about 15,000. However, the company has not released details of the impacts this move will have on the Boise site, and none have been built into this forecast.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: After suffering heavy employment losses during the first years of this decade, Idaho logging and wood products sector has entered a period of stability. This sector lost one out of every five jobs from 2000 to 2003. What was particularly frustrating about this loss was that it occurred when the U.S. housing sector was ramping up. The employment situation improved in 2004

Idaho Wood Product Employment and U.S. Housing Starts

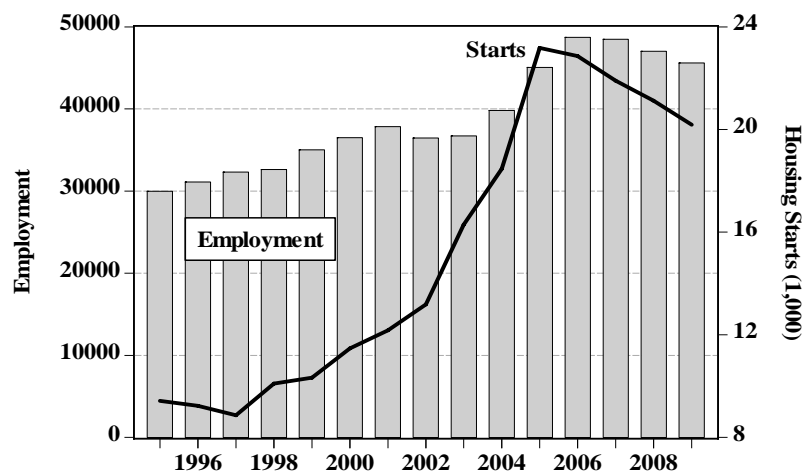


when this sector posted a modest gain of about 250 jobs. This increase was followed with nearly 340 more jobs in 2005. This sector was also helped by the weaker U.S. dollar, which improved the competitiveness of U.S. wood products. This sector should have enough momentum to expand another 250 jobs this year, but other factors make further gains unlikely. Mounting evidence suggests U.S. housing starts have already peaked. Future gains will also be restricted by local capacity constraints and ongoing efficiency measures. Idaho manufacturing capacity is limited because several mills have been

closed in recent years and the surviving mills have been forced to produce more products with less labor. For example, each Idaho logging and wood products sector employee produced about 215,000 board feet of lumber in 2003, which is well above the 172,000 board feet of lumber per worker produced in 1993. In addition, supply-side issues present challenges for this sector. A major concern is timber supply. The Gem State's logging and wood products sector has been traditionally dependent on timber from public lands, but this source has been shrinking over time. According to the U.S. Forest Service, just over half the timber harvested in Idaho came from public lands in 1993. By 2003, public timber accounted for less than 30% of the total harvest. A significant part of this decline is due to reduced harvests from national forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Another concern is the current manufacturing overcapacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Under these conditions, Idaho logging and wood products employment is expected to increase 2.6% this year followed by declines of 2.2% next year, 3.9% in 2008, and 4.2% in 2009.

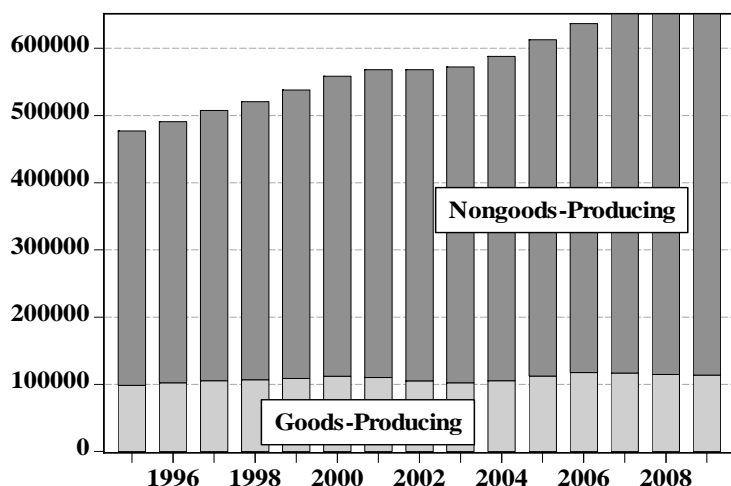
Construction: The current forecast anticipates the state's booming construction sector is nearing a peak and will soon begin to settle down to more sustainable levels. It is truly amazing how long and how strong the housing expansion has been. This can be seen in both the housing starts and construction employment data. According to historical records, Idaho's housing starts increased from just over 3,300 units in 1988 to nearly 23,200 units in 2005, which was a 12.2% annual gain over this 17-year period. Idaho construction employment has also done well,

Idaho Construction Employment and Housing Starts



increasing in 14 of the last 15 years. From 1991 to 2005, Idaho construction employment advanced by about 5.7% per year. To put this growth in perspective, one must remember Idaho nonfarm employment grew 3.2% annually over this same period. The housing sector has accelerated in recent years. For example, after displaying some softness in the mid-1990s, Idaho housing starts have grown every year since 1998. During this seven-year period housing starts grew from 8,900 to 23,179—a 160% increase, about 15% per year. This increase was fueled by robust demand caused by the state’s strong population growth and generation-low mortgage interest rates. Not surprisingly, Idaho construction employment grew from 20,300 in 1991 to 45,000 in 2005. Strong local housing demand has caused home prices to surge. Historically, Idaho housing home price appreciation has kept pace with the national consumer price index. However, in recent years Idaho housing prices have increased much faster than inflation, leading to fears the state’s housing market is due for a correction. A correction is not without precedent. A hot market caused Idaho housing starts to peak at over 12,600 units in 1977, which was a threefold increase from 1970’s 4,000 housing units. Three years later there were less than 6,000 housing starts in the state, and housing starts remained below 6,000 units for the next decade. We do not anticipate a repeat of the 1970’s retreat over the forecast period. While Idaho housing starts are expected to decline from their recent highs, it is believed this decline will be orderly and less steep than it was thirty years ago. There are several reasons for this prediction. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to “housing bubbles” show no Idaho communities are at significant risk (most “bubbles” are concentrated on the coasts). Fourth, Idaho could benefit from a boom in second homes.

Idaho Nonfarm Employment

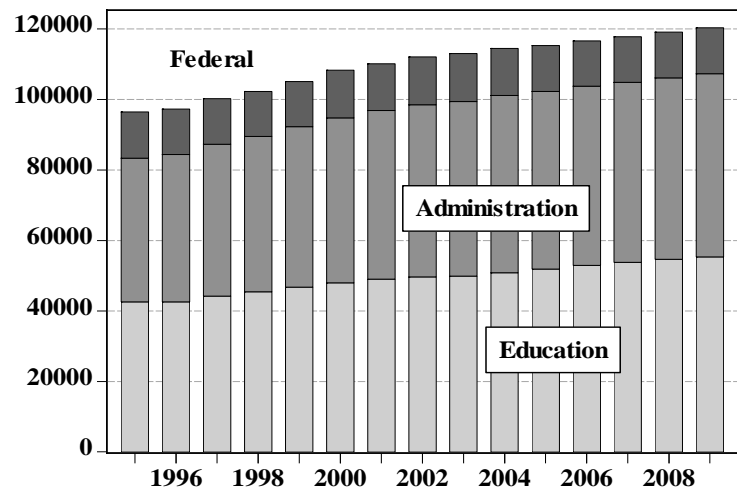


Nongoods-Producing Industries: The private nongoods-producing sector is the state’s largest employer and will be its job growth champion over the forecast period. This sector accounted for over six of every ten nonfarm jobs in Idaho last year. The nongoods-producer sector can be divided into its services and trade components. Services consists of the following industries: information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. The

services component is the larger of the two, accounting for nearly three-quarters of this sector’s employment. This component’s employment has averaged 4.3% annual growth from 1991 to 2005, while trade employment has expanded 2.6% per year. The service component’s strength is no surprise, given it includes some of the economy’s most impressively performing industries. Together, the services and trade components should continue to out pace overall employment growth. Specifically, private nongoods-producing employment should expand 3.9% annually and total nonfarm employment should rise 2.7% per year.

Government: The public sector is a major part of the state's economy, accounting for nearly one of every five jobs in Idaho in 2005. Government employment can be divided into its major categories: state, local, and federal. The state and local government category is by far the largest employer, accounting for 103,700 jobs. There were about 13,000 federal jobs in Idaho in the same year. Traditionally, state and local employment has grown much faster than federal employment. In fact, the former has been expanding while the latter has been contracting. The number of state and local government jobs has grown from 75,900 in 1992 to 103,700 in 2005.

Idaho Government Employment



During this same period federal government employment has dropped from 13,500 to 13,000. One of the reasons state and local employment growth eclipsed federal employment growth is because the former is directly fueled by the state's strong population growth. Driven by a flood of newcomers, Idaho's population expanded nearly 30% from 1990 to 2000. The swelling population stretched the state's existing infrastructure. In an attempt to meet the needs of the growing populace, Idaho's state and local employment payrolls expanded an average of 3.0% per year from 1991 to 2000. Beginning this decade, Idaho state and local employment growth slowed as the state's population growth eased from the previous decade's booming pace. Recent evidence suggests Idaho's population will grow faster during the last half of this decade compared to its first half. Healthy housing starts, job growth, tax receipts, and personal income, all support the U.S. Census Bureau's estimate that the Gem State's population jumped about 2.7% in 2005—the first time it has advanced above 2% this decade. Population growth is expected to recede from last year's high-water mark but remain above 2% through the forecast period. Given this population prognosis, it is no surprise Idaho state and local government employment growth should gradually ebb through 2009. Specifically, state and local employment is predicted to rise 1.4% this year, 1.1% next year, 1.2% in 2008, and 1.0% in 2009. Although population is the major factor affecting state and local government growth, it is not the sole factor. Other factors that could affect the state and local government job forecast are property tax limitation measures that are being circulated throughout the state. The 2006 Idaho Legislature passed several property tax relief measures. The most notable change was to the homeowners' exemption that raised the exemption limit for primary residences from \$50,000 to \$75,000 and adjusts this new ceiling annually to account for rising home prices. This measure also allows land to be included in the exemption; it was excluded in the past. Despite this change, there is a movement to restrict property taxes further, which could curtail further Idaho local government spending. Federal government employment in the state is primarily determined by federal budgets. Given the U.S. Congress's anticipated austerity measures to deflate the swelling federal budget deficit, federal employment in Idaho should remain near 13,000 jobs over the forecast period. However, there are downside risks to this forecast. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Unfortunately, the impact to the City of Mountain Home will be relatively high because Mountain Home Air Force Base is the city's largest employer.

Mining: Idaho's mining industry has been expanding for four years, but these increases will not be large enough for it to reverse its long-term employment decline. Idaho mining employment dropped to a recent nadir of 1,758 jobs in 2002. Since then it has increased in every year to 2,199 in 2005. This year promises to be another good year, with employment expected to rise to 2,368 jobs, an increase of 7.7%. While this year's peak is well above 2002's employment level, it is still lower than the previous peak of nearly 3,000 jobs in 1997. Unfortunately, this is a recurring theme for this sector. A timeline of Idaho mining employment displays a downward trend in which any given employment peak is followed by a lower peak. While the mining industry has enjoyed employment gains recently, it will eventually succumb to tougher times. As a result, Idaho mining employment is anticipated to decline after this year. Most of the risks to this forecast are on the upside, however. Most significantly, soaring metal prices could stimulate exploration and production, which would result in more jobs than have been predicted in this forecast.